IOWA UTILITIES BOARD
Energy Section

Docket No.: TF-2012-0640 (RPU-2010-0001)
Utility: Interstate Power and Light Company
File Date: November 20, 2012
Memo Date: December 28, 2012

TO: The Board

FROM: Jim Kellenberg

SUBJECT: Request to Approve TF-2012-0640 (RPU-2010-0001) Tax Benefit Rider Third Year Compliance Filing

I. Background

On January 10, 2011, the Utilities Board (Board) issued a Final Decision and Order in Docket No. RPU-2010-0001, an electric rate case, authorizing Interstate Power and Light Company (IPL) to implement a Tax Benefit Rider (TBR) tariff. The TBR tariff provides billing credits to customers from the regulatory liability account established for expected income tax benefits that were authorized by the Board in Docket No. ARU-2010-0001.

On November 20, 2012, IPL filed its TBR Third Year Compliance Filing, identified as TF-2012-0640, to implement the 2013 TBR tariff rate effective with the January 2013 billing cycle. IPL included attachments showing its calculations for the derivation of its 2013 TBR tariff rate. The Board has previously approved IPL's filings for the 2011 and 2012 TBR tariff credit factors. The current 2012 factor is effective through the end of the December 2012 billing cycle.

The proposed third year annual tax benefit refund amount of $56,220,000 for 2013 is the same as that found in Schedule M of IPL's January 18, 2011, compliance filing in Docket No. TF-2011-0010. IPL's TBR Third Year Compliance Filing shows gross tax benefits of $80,758,506 offset by a normalized deferred tax adjustment of $24,538,506 resulting in a 2013 refund amount of $56,220,000.

The annual tax benefit of $56,220,000 will continue as a credit to IPL's Energy Adjustment Clause (EAC) for bills rendered with the January 2013 revenue month, which is consistent with the approved rate design of the tariff.

On November 27, 2012, the Office of Consumer Advocate (Consumer Advocate) filed a Conditional Objection to the proposed TBR tariff. Consumer Advocate said that it had reviewed the proposed tariff and had thus far been unable to determine whether the refund amount is appropriate and in compliance with the Board's decisions concerning the tax benefit rider or whether a larger refund should be made to customers. Consumer Advocate was concerned, for example, that it may not be appropriate to reduce the $80,758,506 tax benefit by $24,538,506, which IPL referred to as a deferred tax adjustment. Consumer Advocate said that further analysis was required to determine if IPL's proposed $24,538,506 deferred tax adjustment is appropriate.

Consumer Advocate stated that because customers should not be deprived of the undisputed portion of the tax benefit during 2013, which is $56,220,000, it did not object to the proposed refund. However, Consumer Advocate conditionally objected at a minimum to the reduction of the tax benefit by up to $24,538,506 pending further analysis.

On December 14, 2012, the Board issued an Order Docketing Tariff, Authorizing Refund, and Requiring Report (Order). The Board authorized IPL to refund $56,220,000 to customers as proposed in TF-2012-0640, and also stated that additional refunds may be ordered by the Board. The Board's Order stated that Consumer Advocate shall file a report on or before January 9, 2013, detailing the status of its investigation.

Also, on December 14, 2012, IPL made an Errata Filing in Docket No. TF-2012-0640. The deferred tax adjustment for IPL's retail electric jurisdiction was changed to $24,320,176 from $24,538,506. The tariff sheet that IPL filed with the Board in TF-2012-0640 on November 20, 2012, which includes the refund factor, was unaffected by this revision.

On December 21, 2012, Consumer Advocate withdrew its Conditional Objection. Consumer Advocate advised the Board that there are no issues requiring the Board's attention and that the appropriate amount to include in the 2013 TBR refund remains at $56,220,000. Consumer Advocate also noted that the $218,330 reduction in the deferred tax adjustment (from $24,538,506 in the original filing to $24,320,176 in the revised filing) increases the remaining tax benefit balance to be refunded in the future by $218,330.

II. Legal Standards

The proposed third year annual tax benefit refund amount of $56,220,000 for 2013 is the same as that found in Schedule M of IPL's January 18, 2011, compliance filing in Docket No. TF-2011-0010. IPL's Schedule M included in its January 18, 2011, filing indicated that kWh estimated sales would be updated to reflect the upcoming year at the time that the rider is implemented. IPL's TBR Third Year Compliance Filing has provided estimated kWh sales for 2013, to arrive at a refund factor per kWh.

III. Analysis

IPL included Attachments 1 through 4 in its original filing of November 20, 2012, and revised Attachments 2 and 4 in its Errata Filing of December 14, 2012. IPL's Attachment 1 is a Revised Compliance Schedule M which shows the estimated kWh sales for 2013 as well as a total refund of $56,220,000 for 2013 to arrive at a refund factor per kWh for 2013.

IPL's Attachment 2, Background Information of Income Tax Benefits, is a narrative which provides background on IPL's accounting treatment and explains procedural next steps. IPL relates that the expected income tax benefits that are being used to provide billing credits to customers relate to three separate tax projects that were initiated by IPL in 2008. These tax projects are deduction of repair expenditures, allocation of mixed service costs and allocation of insurance proceeds from the 2008 flood.

IPL reports that the IRS completed its audit process for these tax projects in October 2012. Accordingly, IPL states that it will file a final accounting report on the regulatory liabilities related to proposed tax benefit rider refunds in early December 2012 in accordance with Docket No. ARU-2010-0001. IPL plans to report expected gross tax benefits from these three tax projects of about $500 million, of which approximately $450 million would be applicable to the Iowa electric retail jurisdiction. About $125 million has been refunded back to customers through September of 2012. Staff notes that IPL filed a Report on Regulatory Liabilities Related to Tax Benefit Rider on December 14, 2012, under Docket Nos. RPU-2010-0001, ARU-2010-0001, (TF-2011-0010), (TF-2011-0133), and (TF-2012-0640).

Attachment 3 is IPL's updated estimate for the expected tax benefits from the three separate tax projects that IPL provided in August 2012 in its response to a data request from the Consumer Advocate in IPL's natural gas rate case docket (Docket No. RPU-2012-0002). This data request response shows how the expected tax benefits applicable to the Iowa gas retail jurisdiction was determined. Attachment 4 shows the detailed development of the normalized deferred tax adjustment through 2013 for the Iowa electric utility, which is reflected in the billing credit for the 2013 factor. IPL will explain this detailed development further in their December 2012 accounting filing.

In IPL's November 20, 2012, filing, it states that approval of IPL's proposed 2013 TBR tariff factor does not prevent parties from contesting IPL's accounting treatment in its early December 2012 filing, where the final accounting will be approved by the Board. Since this is not IPL's final TBR tariff filing, IPL's future TBR tariff filings will comply with the Board's final accounting ruling.

IPL further states it is providing Attachment 2 through Attachment 4 as additional background information on IPL's TBR accounting treatment and the attachments explain the next steps. None of the information in these attachments requires explicit Board approval at this time and the information is provided as context only.

The Board's Order of December 14, 2012, authorized IPL to refund the undisputed portion of the TBR ($56,220,000). Staff has reviewed the calculations in Attachment 1, which relate to the TBR tariff sheet filed on November 20, 2012, and recommends approval of TF-2012-0640.

IV. Recommendation

Issue the attached order approving TF-2012-0640 (RPU-2010-0001), as amended by the Errata Filing on December 14, 2012, effective as of the date of this order.

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